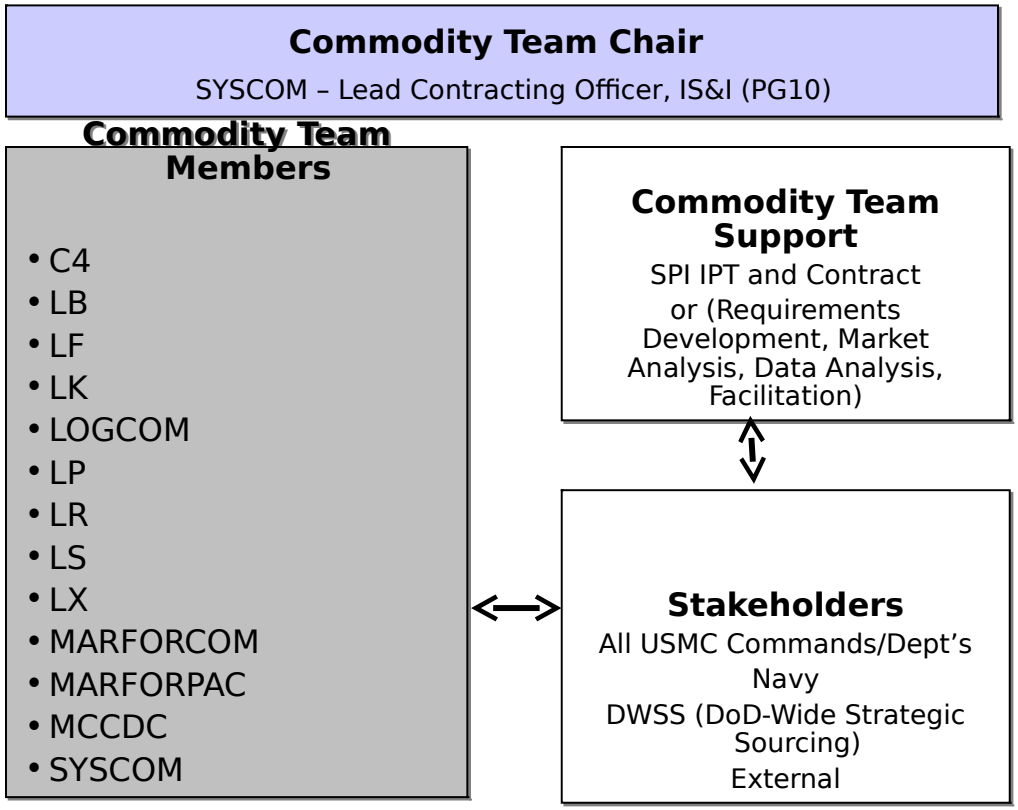
Commodity Teams

USMC Strategic Purchasing Initiative

IT Commodity Team

Hardware Working Group
Briefing
June 2006

The IT Commodity Team



- In addition to participation from its members, the Commodity Team sought input from and conducted extensive interviews with incumbent USMC IT hardware suppliers, and other key stakeholders such as Programs of Record (PORs)

The IT Commodity Team (CT) - First Team Launched as part of the USMC's Strategic Purchasing Initiative

What is SPI?

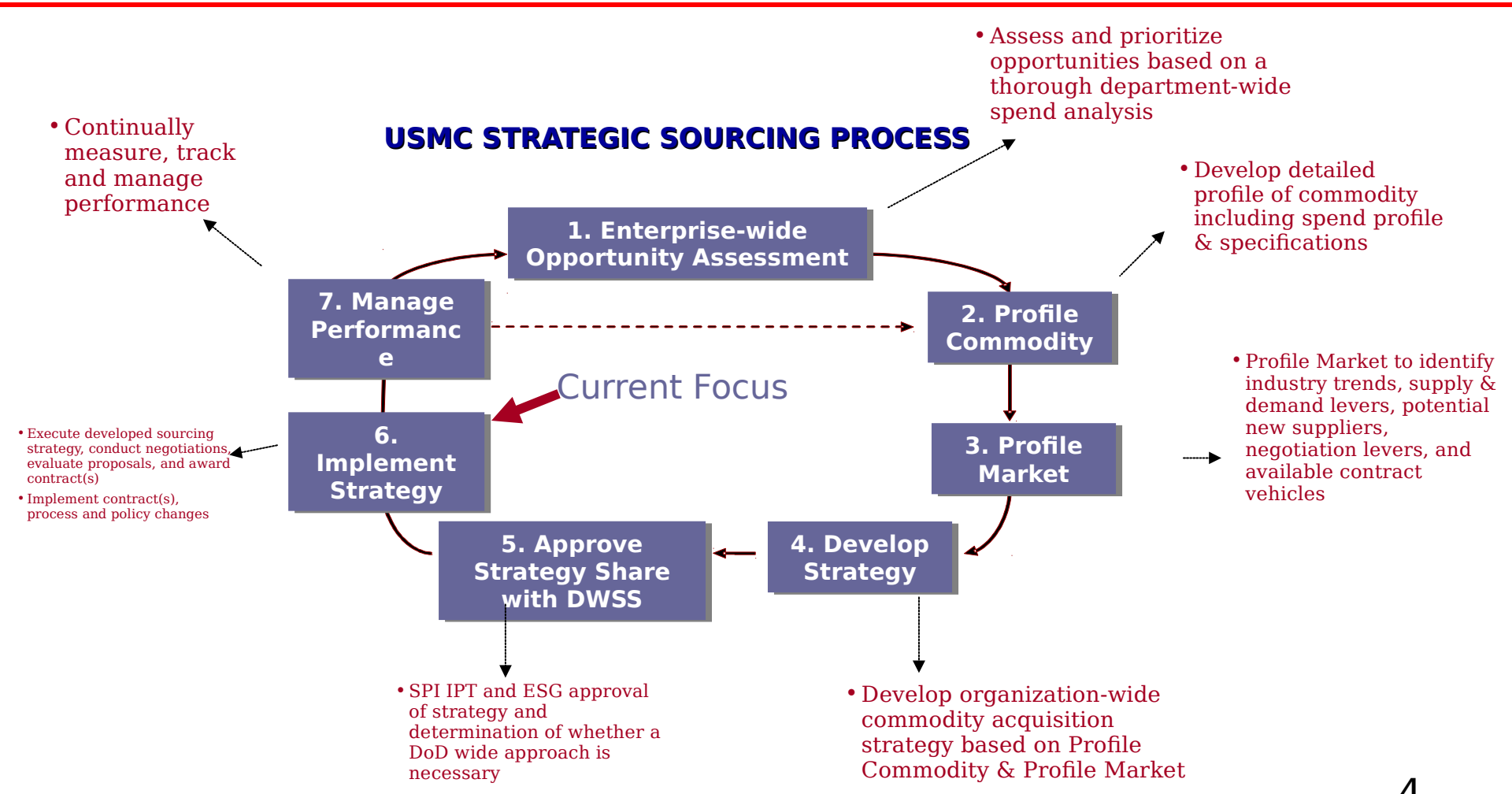
- A strategic approach to purchasing goods and services
- Covers:
  - Resources
  - Training
  - Organization and structure
- Based on significant analysis
  - Spend analysis
  - LR/LB research
  - Other organizations
- Linked to Planning, Programming, Budget, and Execution (PPBE) to assist Commandant of the Marine Corps (CMC) afford Marine Air Ground Task Force (MAGTF) 2015 capabilities

What is the Mission?

- Conduct an end-to-end review of Marine Corps' product and service acquisition practices in order to identify opportunities for improvement.
  - Coordinate the development, approval, and implementation of action plans based on the following initiatives:
    1. Coordination of Marine Corps purchasing related initiatives
    2. Process mapping, analyses, and best practices
    3. Strategic Purchasing/Strategic Sourcing Program (SPSS)

Focus of Commodity Teams

The IT Commodity Team Uses the USMC's 7-step Strategic Sourcing process to conduct the analysis


USMC STRATEGIC SOURCING PROCESS
1. Enterprise-wide Opportunity Assessment
2. Profile Commodity
3. Profile Market
4. Develop Strategy
5. Approve Strategy Share with DWSS
6. Implement Strategy
7. Manage Performanc e
Current Focus
• Assess and prioritize opportunities based on a thorough department-wide spend analysis
• Develop detailed profile of commodity including spend profile & specifications
• Profile Market to identify industry trends, supply & demand levers, potential new suppliers, negotiation levers, and available contract vehicles
• Develop organization-wide commodity acquisition strategy based on Profile Commodity & Profile Market
• SPI IPT and ESG approval of strategy and determination of whether a DoD wide approach is necessary
• Execute developed sourcing strategy, conduct negotiations, evaluate proposals, and award contract(s)
• Implement contract(s), process and policy changes
• Continually measure, track and manage performance

Recommendations

Recommendation	Details	Benefits
1) Establish enterprise vehicles for product areas with significant future demand (continued)	• Continue process of establishing an enterprise-wide vehicle for **Storage Area Networks** – Perform an in-depth Market Profile to understand supplier cost drivers and technology trends	• Gain understanding of supply base to negotiate more effective agreements with the right set of suppliers • Understand how this quickly-evolving technology may change over 2-3 years
	• Enhance **Core MCHS BPA** (covers Laptops, Workstations, Servers) upon expiration in March 2006 – Reduce number of vendors from four (4) to a maximum of three (3), including one mandatory small business – Incorporate advanced pricing techniques such as tiered pricing and/or volume discounts (described in Opportunity Area #2) – Work collaboratively with suppliers to understand their cost drivers, and how USMC can work to reduce total costs – Utilize past performance, pricing, delivery, and trouble ticket information to select vendors more effectively	• Improvement in meeting socio-economic goals through the selection of a qualified small business reseller • Improved standardization of products across the Marine Corps through fewer vendors competing for orders • Improved overall pricing through the implementation of advanced pricing techniques • Shorter lead time due to better understanding of supplier inventory and configurations that can increase efficiencies • Reduced workload for MCHS program and Contracting Office by managing fewer suppliers

Recommendations

Recommendation	Details	Benefits
2) Implement advanced pricing techniques, such as volume discounts, unbundling of services, and/or tiered pricing	• Incorporate various types of discounts into pricing structure: -Base pricing as a % of index – instead of negotiating absolute prices for products, select an index and negotiate a percentage off that index -Total volume discounts – negotiate a percent rebate at the end of a period (e.g. quarter, year) for achieving a certain amount of total volume -Tiered volume discounts – negotiate a discount percentage for different volumes for each order (e.g. x% for 10-50, y% for more than 50)	• % off of index will ensure that current pricing is always reflected • Total volume discounts provide incentive for supplier to offer maximum discount possible in order to drive volume to their agreement • Tiered volume discounts encourage aggregation of small orders, leading to overall price reduction and reduced process costs due to fewer orders
	• Unbundle pricing for various components of product and service: -Obtain and negotiate pricing separately for all product or service components (e.g. unbundle warranty) -Conduct cost/benefit analysis of setting up separate contract for warranties	• "Hidden" prices often part of bundled products can be evaluated and negotiated separately • Bundled services such as warranty may be separated out and negotiated for USMC as a whole, rather than for each machine

Recommendations

Recommendation	Details	Benefits
3) Manage existing USMC configurations to lower total costs through collaborative process with suppliers and End Users	• Work with End Users to understand true critical requirements, and determine where adjustments can be made in order to reduce total costs	• Provide End Users with equipment that meets their needs while achieving goal of lowering total costs
	• Collaborate with industry to remove non-standard specifications and align configurations with industry standards, when possible – Conduct quarterly workshops with incumbent suppliers to understand impact of configuration options on the total unit cost	• Decrease unit costs through more standard specifications and/or less advanced specifications • Decrease maintenance issues through the use of more standard equipment • Develop stronger relationships with supply base in order to conduct continuous cost improvement
4) Develop demand management processes to execute IT Hardware purchases more effectively, such as aggregation of orders and market timing	• Develop process for aggregating smaller unit transactions into larger purchases – Combine smaller orders into purchases of 50+ units when possible – Develop a well-structured purchasing plan that predicts known purchases and builds in specific timeframes to go to market in order to bundle unknown purchases (e.g., monthly, bi-weekly)	• Lower unit costs through aggregation of product quantity • Reduced workload of Contracting Office executing multiple procurements • Improved communication of purchasing timing with End Users in order to set expectations for procurements

Recommendations

Recommendation	Details	Benefits
4) Develop demand management processes to execute IT Hardware purchases more effectively, such as aggregation of orders and market timing (continued)	• "Time" market to take advantage of price savings associated with new product introductions and quarterly closes – Defer unnecessary purchases of cutting-edge technologies until 6 months after introduction – "Time" market to take advantage of "dip" in prices associated with quarterly closeouts of public companies – Move purchases forward (or delay purchases) in relation to excess inventories associated with new product introductions	• Decrease unit costs by "timing" market purchases (although many procurements require immediate turnaround, it is possible to "pull" forward procurements that are anticipated at a later date) • Develop more comprehensive view of emerging technologies through consistent monitoring of market
5) Streamline the IT Procurement Process to reduce cycle time	• Streamline IT Procurement Processes to reduce cycle times, to increase visibility and to reduce manual data entry – Perform End-to-end review of the IT Procurement process to reduce cycle time by simplifying, improving and/or eliminating process steps – Consider implementing end-to-end technology to enhance visibility and minimize manual data entry throughout the process – Greater involvement of End Users throughout the procurement process	• Decreased cycle time due to – Simplified process steps – Ability to monitor progress of procurement throughout the process – Minimized manual data entry at different points within the procurement process • Higher product quality due to utilization of End User IT knowledge throughout the process

Accomplishments To Date

- Industry Conferences – Current BPA Holders
  - Gained Lessons Learned
  - Identified Cost Drivers
- Users Conference
  - Technology Trends and Users Requirements
- Pricing Models
  - Researching Alternate Approaches

Implementation Next Steps

- Research Other Approaches
- Market Survey/Industry Input
- User Survey/Input
- Implement
  - Lessons Learned/Recommendations at Start of New BPAs
  - Market Input
  - User Input
  - Updated Configurations

Questions?